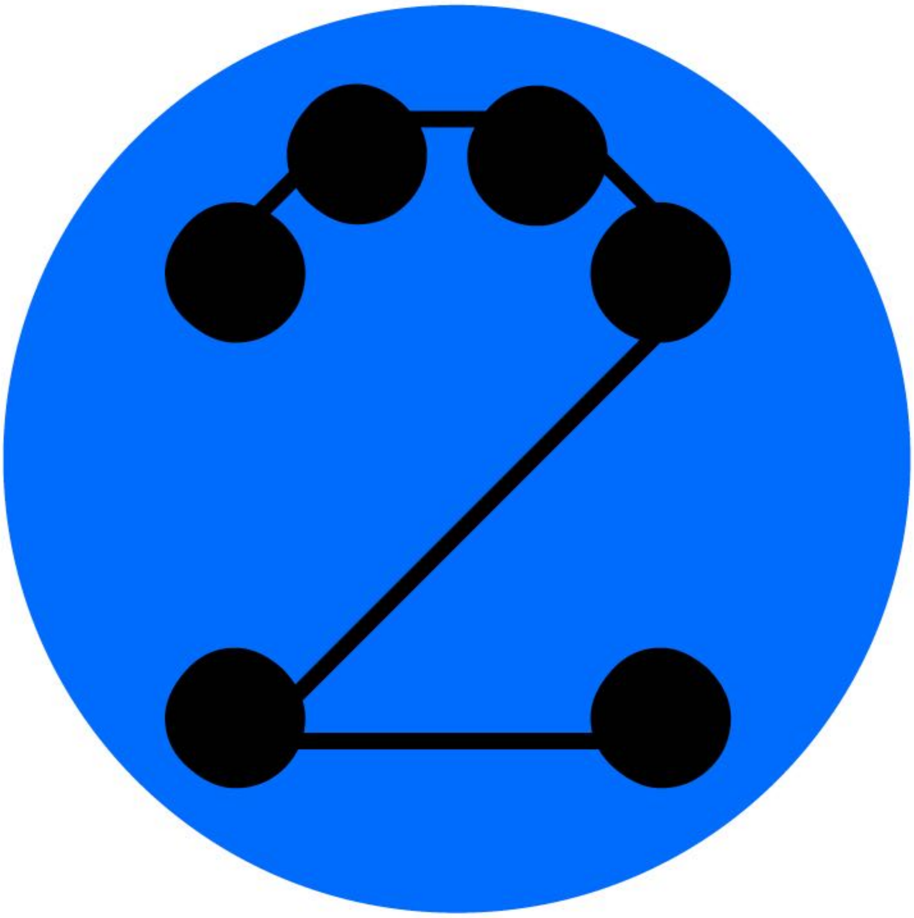
Economic, sectoral and regulatory environment



Economic, sectoral and regulatory environment

2.1 Economic and financial environment

2024 was once again marked by a difference in growth between the United States and the Eurozone.

2024 was a year characterised, in economic terms, by an acute contrast between the economic performance of the United States, which was better than initially expected, and that of the Eurozone, which was weighed down by high political uncertainty in France and weak activity in Germany, which recorded a slight contraction for the second year in a row. Spain, for its part, continued to perform well and ended the year with growth above 3%.

Inflation continued moving towards central banks' targets during the year, although the services component showed some stickiness and remained relatively high. Central banks gained confidence about inflation moderation and at the mid-year mark started to cut official interest rates. In spite of this, they were cautious about the future evolution of interest rates.

2024 was also a year marked by political and geopolitical events. In the Middle East, the conflict between Israel and Iran escalated on several occasions and, in general, the situation in the region got gradually worse as the year progressed, with the involvement of several regional players such as Iran and the armed militia Hezbollah in Lebanon. In terms of domestic politics, more than 70 countries (the equivalent of around half of the world's population) held elections during 2024. Most notably, the United States held its presidential elections, with Donald Trump returning to the White House, which opens a new source of uncertainty akin to what happened during his first term. The elections held in France and Mexico also added to the political noise.

Lastly, in relation to the financial markets, 2024 was once again a positive year, particularly for risk assets. The various episodes of a geopolitical or financial nature (such as the summer disruption due to the reversal of carry trade positions in yen) only caused isolated instability, which subsequently faded away.

Political and geopolitical environment

Geopolitical events were still a source of uncertainty for the markets and the global economy in 2024. First, the conflict in the Middle East, which broke out with Hamas' attack on Israel in October 2023, escalated regionally throughout 2024. Against this backdrop, Israel and Iran exchanged direct attacks on their respective territories, something that had not happened until now. As a result, risks mounted, despite the fact that there were no disruptions to the flow of oil and gas coming from the Middle East nor significant consequences for these markets.

Geopolitical events and the domestic policy of several countries remained a focus of attention during the year.

Second, the conflict in Ukraine continued. Although Russia's advances in eastern Ukraine were limited, Russian attacks knocked out much of Ukraine's energy infrastructure, while Ukraine responded with attacks on oil refineries on Russian territory. The G7 continued to provide financial support to Ukraine, but pressures in the West to move towards ending the conflict mounted.

Third, strategies to reduce trade reliance on China continued on both sides of the Atlantic. The United States kept setting limits on trade with China and technology transfers to this country, while Europe joined in by approving additional tariffs on imports of electric vehicles from the Asian giant. China responded by adopting retaliatory measures against Europe, affecting specific sectors.

Meanwhile, domestic politics was also a significant focus point during 2024 in several countries. In the United States, Donald Trump won the presidential elections, creating a new source of uncertainty as a result of his aggressive stance on foreign trade and immigration.

In France, the political noise was very high. Following the snap elections, Parliament was divided into practically three blocs, with no political force achieving an absolute majority. After tough negotiations, an executive branch led by Barnier was formed. His term abruptly ended a few months later, after the opposition tabled a motion of censure. Macron then appointed the liberal Bayrou as the new prime minister, who formed a new government whose main task will be to draw up a budget for 2025.

In Mexico, the internal political noise led to a deteriorated economic outlook for the country. The elections that took place in June resulted in a reinvigorated government with a qualified majority in the parliamentary chambers and with the desire to implement reforms that are viewed negatively by investors and that could lead to negative actions by credit rating agencies, especially if fiscal discipline were to come into question.

Economic activity and inflation

During 2024, the global economy saw a pronounced difference between the momentum of the United States' economy, which performed better than expected, and the economy of the Eurozone, which was particularly weighed down by Germany's weakness. Spain continued to outperform other Eurozone countries, while China continued to be affected by the impact of its real estate sector adjustment.

Inflation continued moving towards central banks' targets in 2024.

In the Eurozone, activity continued to show signs of weakness in an environment of restrictive interest rates, and in which Germany continued to experience significant weaknesses stemming from the energy shock and greater competition from China. This is dragging its exports and its industrial sector, particularly the automotive industry and the most electro-intensive sectors.

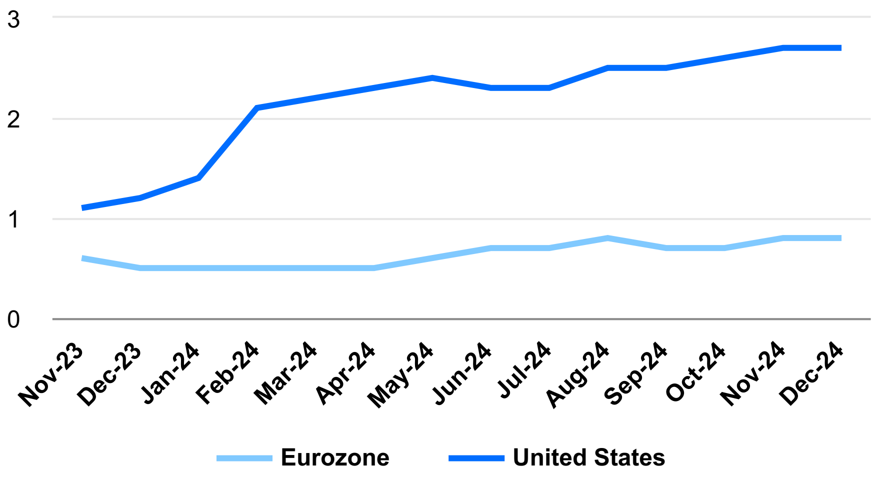
The European periphery, on the other hand, showed increased momentum, driven by the strong recovery of the tourism industry and the injection of the Next Generation European Union (NGEU) funds.

As for taxation, the European Union (EU) opened an excessive deficit procedure against France and Italy for breaching fiscal rules. Both countries have high public deficits, and the expectation is that their public debt will increase in the coming years.

In the United Kingdom, activity was somewhat more dynamic than in 2023. Household confidence regained ground thanks to more contained inflation. Lower interest rates led to a strong performance of the real estate sector, which built up gradually during the year, recording house price increases and a rebound in the number of transactions.

In the United States, activity was robust. GDP continued to climb at high rates despite a still restrictive monetary policy. The labour market remained resilient, although it showed some signs of a slowdown. The unemployment rate, despite having increased slightly compared to 2023, remained near the record low.

Evolution of the economic growth forecast for 2024 between the Eurozone and the United States
Source: Consensus Economics.

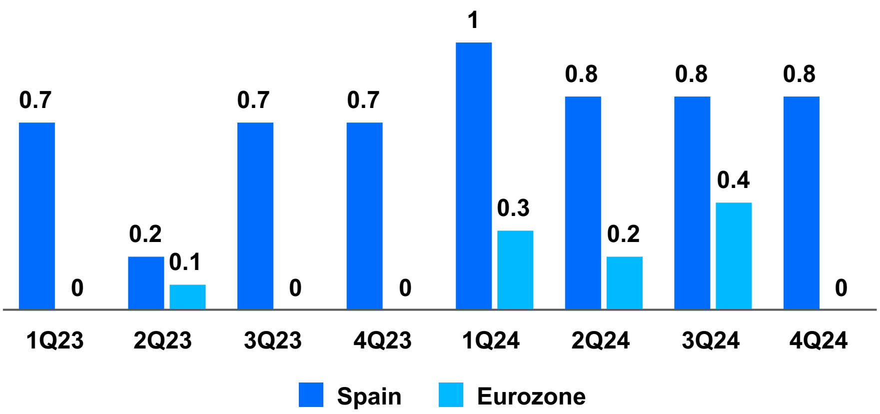


Spain's economy continued to stand out in a positive light in the Eurozone.

Spain continued to outperform other Eurozone countries, with high levels of growth that surprised to the upside and with continuous upward revisions of growth forecasts by the consensus and various institutions. The composition of growth was favourable, with private consumption and tourism exports standing out, which benefited from greater geographical and seasonal diversification. Lending, on the other hand, was less dynamic.

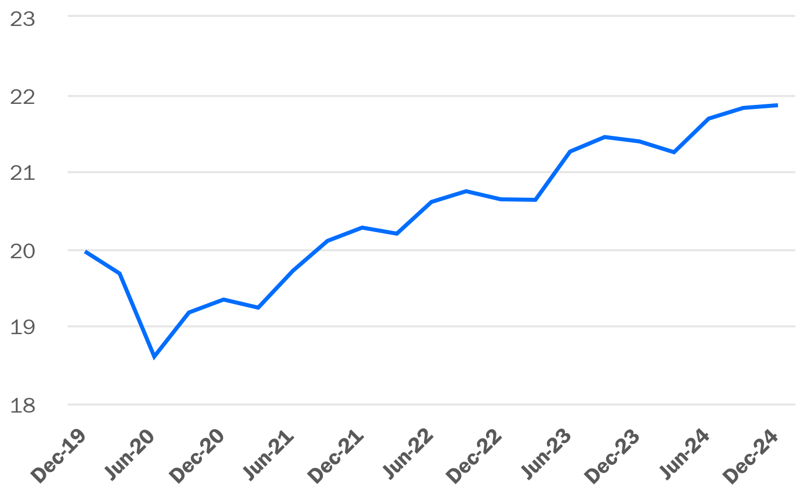
In the labour market, job creation continued to increase at a robust rate with employment levels reaching a new all-time high, while business confidence in both the services and manufacturing sectors continued to rise throughout practically the whole year, despite the aftermath of DANA, which affected the province of Valencia, among other regions.

GDP growth of Spain vs Eurozone
(quarterly variation, %)
Source: Eurostat.



Growth in Spain was underpinned by several factors such as significant flows of immigration, the recovery of real incomes, the good financial situation of households and businesses, interest rate cuts and the ongoing injection of NGEU funds.

Total number of people employed in Spain (in millions).
Source: Spanish Office for National Statistics (Instituto Nacional de Estadística, or INE)



In the area of economic policy, a number of actions were taken, including (i) the mobilisation by the government of 40 billion euros under the recovery plan addendum to be channelled into five funds through a variety of financial instruments, such as second-floor facilities with financial institutions, direct loans and equity investments in certain companies, (ii) the approval of a deal between the Official Credit Institute (ICO) and the government under which the ICO will give guarantees of 2 billion euros for the development of homes to be rented out under affordable housing schemes, (iii) the extension of the VAT cut on certain food products until September and its partial recovery in October, (iv) the unemployment benefit reform to increase its amount and make it compatible with work, (v) the submission to the European Commission of the Fiscal Structural Plan for the 2025-2028 period, in which deficit targets in line with the new European fiscal rules were set out, and (vi) several aid packages aimed at mitigating the economic impact of the DANA emergency.

In Mexico, activity was subdued, clearly losing traction against the pace of growth seen in 2022 and 2023. Economic growth was weighed down by the drawn-out restrictive monetary policy and domestic and foreign political uncertainty.

Beyond Mexico, the emerging economies, in general, continued to show resilience, despite the high interest rate environment at a global level. Greater trade fragmentation and global investment helped these countries. The less restrictive monetary policy was also a support factor, as some emerging countries began cutting official interest rates before developed countries. This resilience was felt despite the economic downturn in China, due to the tighter adjustment to the real estate sector. As a result, at the end of September, the Chinese authorities announced a package of wide-ranging stimulus policies aimed at containing the decline of the real estate sector and boosting household confidence, all with the aim of stabilising the economy.

Inflation in the main developed economies moved closer towards the targets set by central banks during 2024, although the services component continued to be sticky.

In the Eurozone, inflation continued to ease, with the year-on-year rate falling below the 2.0% target for the first time since mid-2021, thanks mainly to the energy component. In any event, inflation in the services sector remained at historically high levels.

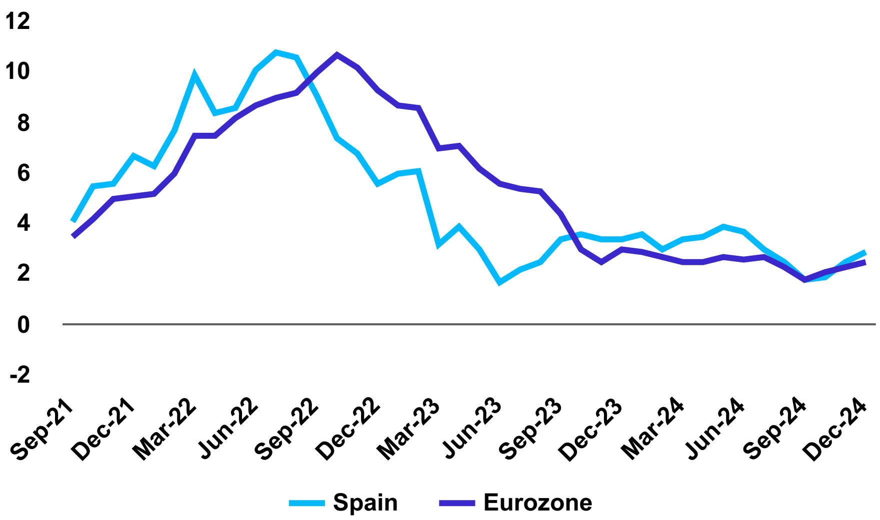
In the United Kingdom, headline inflation receded to almost target levels, due to a correction in energy prices, fuels in particular. Core inflation improved somewhat, although it still shows signs of stickiness, especially in the services sector.

In the United States, inflation continued to gradually cool off, with headline inflation close to the target and core inflation somewhat above. Broken down by components, pressure on services eased off in the last few months of the year, but housing continued to drive prices up, while goods and energy contributed favourably to falling inflation. Similarly, the disinflationary process continued in Mexico, although the services component was somewhat sticky.

In Spain, prices were underpinned by persistent services inflation, especially those related to the tourism industry. This was compounded in the first half of the year by the rapid acceleration of energy prices, due to base effects stemming from tax changes in the price of electricity and some rebound of fuel prices. From June onwards, inflation started to moderate, driven by lower prices of energy and certain food items, standing at 1.7% year-on-year in September. Thereafter, inflation rebounded to 2.8% in December due to, among other factors, the base effect of energy prices. The inflation figure for the entire year stood at 2.9%, down from 3.4% in 2023.

House price growth continued to show strong momentum, accelerating its pace to levels above 8% year-on-year on the back of rising demand and relatively tight supply.

HICP for Spain vs Eurozone (year-on-year change in %)
Source: Eurostat.



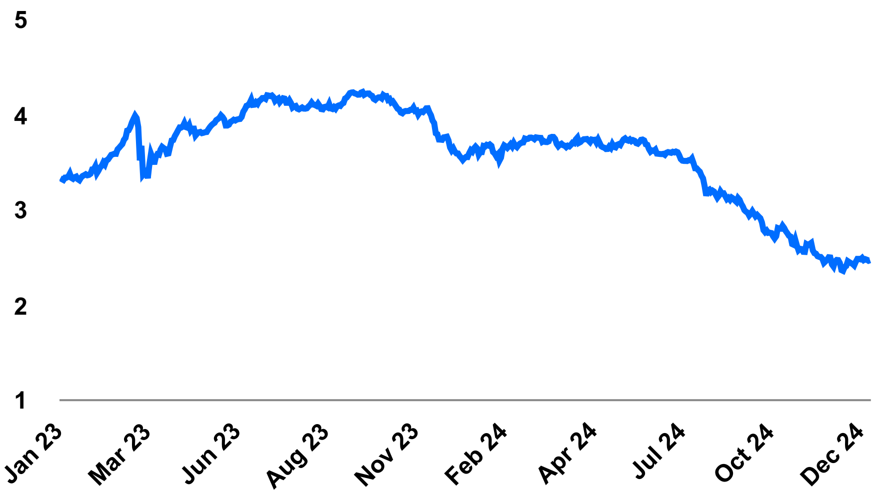
Monetary policy

During 2024, the central banks of developed countries embarked upon a series of interest cuts in a context of more moderate inflation.

Central banks began cutting official interest rates in the middle of the year.

In the Eurozone, the European Central Bank (ECB) launched its series of cuts in June and set the deposit rate at 3.00% (down from 4.00%) amidst economic weakness and with inflation close to its target. Meanwhile, the ECB sped up the reduction of asset holdings by ceasing to reinvest maturities under its Pandemic Emergency Purchase Programme (PEPP). Moreover, banks repaid all the liquidity injected through TLTRO III refinancing operations.

12M Euribor (%)
Source: Refinitiv.



In the United States, the Federal Reserve (Fed) reduced the target range of the Fed funds rate by 100 basis points to 4.25-4.50%, in a context in which the central bank observed cooling in the labour market and was more confident that inflation is nearing the 2% target. It also signalled that inflationary risks had become broadly balanced. Going forward, the central bank indicated that it will maintain a data-dependent stance and that the series of cuts will be staggered.

In the United Kingdom, the Bank of England (BoE) began bringing down interest rates, slashing the base rate by 25 basis points in August and November to 4.75%. The central bank appeared in favour of gradually reducing interest rates, with a meeting-by-meeting approach, and it reiterated its message that monetary policy will need to remain restrictive for long enough to allow inflation risks to dissipate. On the topic of balance sheet policies, a decision was made to reduce the BoE's bond holdings by 100 billion pounds over the coming year, in line with the previous two years.

In Mexico, the central bank commenced a series of cuts to the policy rate in the first quarter of the year carrying out five cuts during the year of 25 basis points to the policy rate, which stood at 10.00%. Furthermore, Banxico left the door open to potentially greater cuts in the future. Banxico acknowledged the progress made with disinflation, though it still considered that inflation risks were tilted to the upside, and it expressed concern over weak activity, considering that the balance of risk was weighted to the downside.

Meanwhile, other Latin American countries, such as Colombia, Chile, Peru and Brazil, remained on the path of interest rate cuts embarked on in 2023, but were more cautious in the second half of the year. In Brazil in particular, fiscal noise and worsening inflation expectations led the central bank to reassess its cuts trajectory and, in September, it started to hike interest rates, becoming the only central bank in the region to raise official interest rates. The Brazilian central bank carried out three consecutive hikes of 175 basis points in total, to 12.25%, and anticipated further hikes during its next two meetings. In Turkey, the central bank continued the aggressive path of monetary policy tightening that it began in June 2023, taking the official rate to 50% in March 2024, holding it at this level almost all year long on the back of double-digit inflation. In December, the Turkish central bank cut the policy rate by 250 basis points to 47.50% in view of the improved inflationary outlook. Meanwhile, the Chinese authorities adopted monetary easing measures to support the economic recovery.

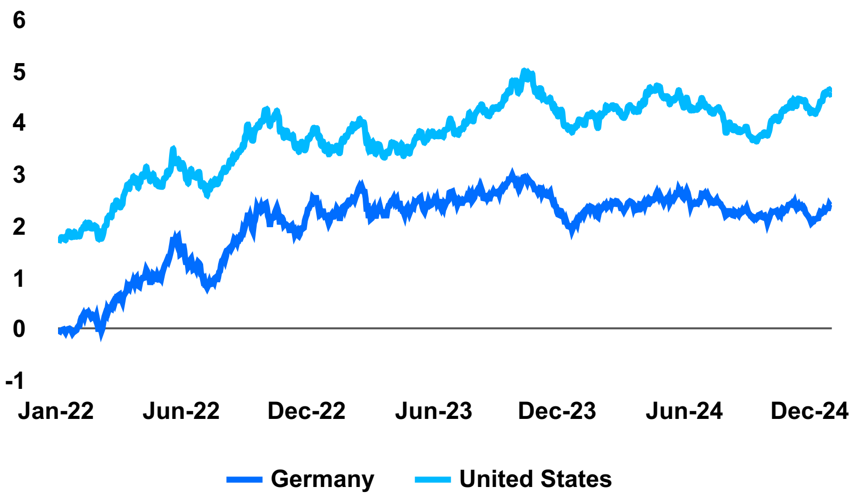
Financial markets

2024 was another positive year for the financial markets, especially for risk assets.

Financial markets once again performed well in 2024, building up from last year's positive performance. Risk assets rose in an environment in which the United States' economy was resilient, the disinflationary trend in the main developed economies was confirmed, and the central banks began their respective interest rate cuts. Various stock market indices reached new record highs driven by the good performance of tech stocks on the back of the development of generative AI. Meanwhile, spreads on corporate bonds and periphery public debt premiums remained very contained. Government bond yields of developed countries, for their part, saw several swings during the year, in an environment in which the markets gradually adjusted their official rate cuts expectations. Finally, the euro ended the year with a strong depreciation against the dollar, impacted by differences in monetary policy between the Eurozone and the United States and, above all, the victory of Donald Trump in the US presidential elections.

Yields on long-term government bonds ended the year at levels above those of 2023 year-end on both sides of the Atlantic, although with clear signs of volatility during the year as the market progressively adjusted its policy rate expectations.

US and German 10-year government bond yields (%) *Source:* Refinitiv.

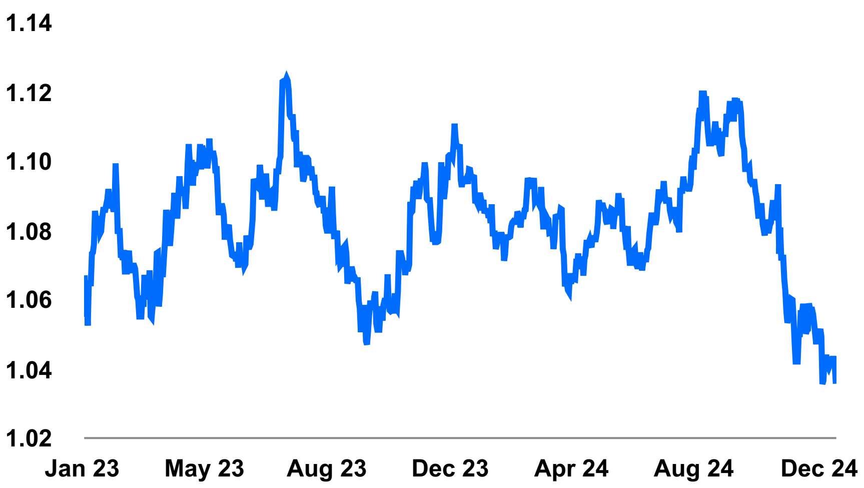


The risk premiums on peripheral sovereign debt stood at levels lower than those seen at the end of 2023, underpinned by credit rating agencies' positive actions, healthy activity data, the ECB's emergency programmes and the disbursement of the NGEU funds.

Meanwhile, France's risk premium rebounded significantly in the face of considerable political uncertainty, the poor shape of its public finances and the negative actions of credit rating agencies.

As regards the currencies of developed countries, the price of the dollar during most of the year ranged between 1.06-1.12 USD/EUR, mainly driven by changes in short-term interest rate spreads. Following Trump's victory during the US presidential elections, the parity broke out of this range and ended the year at 1.04 USD/EUR, a level not seen since 2022. The pound sterling, in its currency pair against the euro, appreciated thanks to the BoE's more tension-ridden stance compared to the ECB's.

USD/EUR *Source:* Refinitiv.



Equity markets performed very well. Most stock market indices rose remarkably. For example, the Stoxx 600 increased 6% year-on-year, while the IBEX 35 managed to post a gain of almost 15%. Stock market increases were especially significant in the United States, above all in the case of tech companies (the S&P 500 and the Nasdaq managed to gain over 20%).

In the emerging countries, sovereign risk premiums rose slightly, in an environment in which tax risks continued to attract attention in countries such as Brazil and Colombia and in which political uncertainty increased in Mexico. This, compounded by falling oil prices and the result of the elections in the United States, also weighed on these countries' currencies. Moreover, uncertainty regarding Trump's agenda weighed negatively on the yuan, despite the shift to a more expansionary economic policy announced by the Chinese authorities towards the end of the year. To the contrary, Turkey did see its risk premium decrease on the back of the implementation of more orthodox policies. Long-term domestic government bond yields, in general, shifted upwards over the year, the main exception being China, where bond yields were dragged down by signs of economic unrest and expected interest rate cuts.

Crypto-asset markets, for their part, gained strong momentum at the beginning of the year with the approval and issuance in the United States of ETFs that invest in spot bitcoin. These products attracted a lot of interest from institutional investors, and from the end of July, ETFs that invest in spot Ethereum were also approved and issued. All of this combined with the bitcoin halving at the end of April (a process that occurs every four years, whereby the reward miners receive for mining bitcoin in the blockchain is cut in half) and Donald Trump's victory after a favourable electoral campaign for the crypto ecosystem contributed to the price of bitcoin rising against the dollar to new record highs, in excess of 100 thousand dollars. The valuation of the crypto market as a whole exceeded 3.7 trillion dollars in December, which is an all-time high.

2.2 Financial sector environment

Banking sector

The banking industry recorded higher profitability thanks to improved net interest income and fee and commission income.

Risks to the banking industry associated with the Commercial Real Estate (CRE) sector materialised in the first half of the year. CRE is undergoing an adjustment process compounded by rising interest rates. Several banks recognised losses associated with the exposure of the offices segment, increased the provisions of CRE loans and adopted various measures. The situation of New York Community Bancorp (NYCB), an American regional bank, revived fears of the March 2023 episode of bank stress. The negative events related to NYCB were due to loss recognition and increased provisions associated with the offices segment, as well as higher regulatory requirements as a result of its larger size after buying Signature Bank (one of the banks that collapsed in 2023). Some other regional banks were affected, but the situation remained contained. In Europe, several small-sized German banks specialised in the real estate sector, such as Deutsche Pfandbriefbank and Aareal Bank, reported exposure to both domestic and United States CRE. The banks of other countries such as Japan, Sweden and Switzerland also took actions to combat the deteriorated CRE sector in the United States and Europe. Authorities were not forced to take measures as during the episode that affected the banking industry in 2023, but they did intensify their communication policy and stated that risk concentration was high in some banks and in the non-bank financial sector.

Despite these events, the banks' overall situation continued to improve in 2024, buoyed by a favourable economic environment and still high interest rates. The capital ratio increased in the banks of the main developed economies, which, according to the authorities, would be capable of facing an adverse scenario. Banks' profitability continued to be resilient, while the cost of funding for banks became more expensive. The repayment of the liquidity associated with TLTRO III did not have a significant impact on European banks' regulatory liquidity ratios. Asset quality remained strong, but showed some signs of deterioration in the European Union, especially in Germany. In general, the conditions applicable to bank loans in the main developed economies eased gradually during the year, as the central banks implemented interest rate cuts.

As for the Spanish banking sector, the landscape continued to be favourable, with high profitability above the cost of capital (between 8% and 11%, according to the Bank of Spain), driven by the positive evolution of net interest income and net fees and commissions. The solvency position of Spanish banks, measured by the CET1 ratio, continued to be below the European average. The average cost of interest on deposits continued to rise in the first half of 2024. Subsequently, the cost of interest on business deposits began to decrease while the cost of interest on retail deposits remained stable. The liquidity position of Spanish banks continued to be comfortable, despite the TLTRO III repayments to the ECB, which in turn increased the amount of collateral available for banks.

The banking supervisor of the Eurozone, the Single Supervisory Mechanism (SSM), included geopolitical risks more explicitly in its supervisory priorities for the 2025-2027 period, focusing particularly on how banks must manage these risks. On the other hand, the entry into force of Basel III had several setbacks. In the European Union, the regulation will apply in general as from 2025, although some rules have been delayed to 2026. In the United Kingdom, its implementation has been delayed again to 1 January 2027 to allow for more time to gain clarity on the United States' plan, where Trump's presidency may entail a new wave of financial deregulation and, consequently, there are increasing doubts as regards the implementation of Basel III.

During most of 2024, there was lingering uncertainty regarding the introduction of fiscal measures on the banking sector in several countries, in order to increase government revenue collection. As for matters of taxation, the case of Spain is noteworthy. The country created a new bank tax that replaced the temporary levy of credit institutions and financial credit establishments, albeit changing its configuration in certain aspects, such as the elimination of the 800 million threshold corresponding to 2019 and the establishment of a progressive tax scale of between 1% and 7%. Revenues from this tax will be distributed among the autonomous communities according to the size of their GDP. According to the Bank of Spain's financial stability report published in autumn 2024, the extraordinary bank levy decreased the Return on Equity (RoE) by 0.6 percentage points to 13.9% as at June 2024. On the other hand, the ECB, in its report dated 17 December 2024, reiterated the need to constantly monitor the implications of the new tax from a financial stability standpoint, recommending a deep dive into its impact on profitability and the capital base over the longer term, access to loans, the potential impact on liquidity, the granting of new loans and competition in the market.

Financial stability and macroprudential policy

Throughout 2024, the financial authorities deemed that the risks associated with global financial stability had moderated. The main concerns revolved around financial and geopolitical factors, while strictly macroeconomic concerns started to fade away. The main vulnerabilities mentioned by the authorities were the propagation of shocks from the non-bank financial sector, how the CRE sector is going to evolve, the accumulation of public and private debt, the increase in the sovereign-bank link, the surge of private credit and cyber-risks.

In Europe, several countries implemented a restrictive macroprudential policy. In Spain, the Bank of Spain activated the countercyclical buffer (CCyB), placing it at 0.5% as from 1 October 2025. The second increase to the CCyB, to 1% in October 2026, is pending confirmation in a new decision at the end of 2025. The Bank of Spain put out the methodological framework for setting the CCyB for public consultation, which establishes a level of 1% when cyclical systemic risks are at a standard level. The authority estimated that a CCyB of 1% decreases the CET1 capital ratio of Spanish banks by 0.4-0.5 percentage points. The Bank of Portugal took a similar measure to Spain, by increasing the CCyB to 0.75% and reviewing the methodological framework for setting the CCyB. In addition, it activated a sectoral systemic risk buffer on residential mortgage exposures of 4% from October 2024. Italy also opted to establish a systemic risk buffer of 0.5% as from January 2025 and of 1% as from July 2025. The Bank of Spain decided to reciprocate the activation of these macroprudential buffers in Portugal and Italy, which affected Spanish banks with exposures in these countries.

Banking Union and Capital Markets Union

In terms of European integration, some notable progress was made, and the number of proposals relevant to the European agenda increased following the formation of the new European Parliament.

Regarding the Banking Union, the European Parliament's Committee on Economic and Monetary Affairs approved the proposal of a draft regulation establishing the first phase of the European Deposit Insurance Scheme (EDIS I). In this phase, the national Deposit Guarantee Schemes (DGSs) will still be needed to deal with possible bank resolutions. At the same time, they agreed to prioritise gradually building up the European Deposit Insurance Fund (DIF), through contributions from the various national DGSs. In addition, progress was made on the negotiations on the crisis management framework for medium-sized banks (Crisis Management and Deposit Insurance, or CMDI), the final approval of which will depend on the final agreements of the trilogues. Another initiative adopted by the European Parliament was the package of measures against money laundering, which includes the creation of the European Authority for Anti-Money Laundering and Countering the Financing of Terrorism (AMLA).

Furthermore, the Enrico Letta and Mario Draghi reports were published. These reports advocated for a deployment of the Capital Markets Union (CMU), rebranded as the Savings and Investments Union (SIU). They also made a series of proposals, notably including the need to reform the securitisation markets, boost European savings with tax incentives, improve European pension schemes and transform the European Securities and Markets Authority (ESMA), giving it more power and centralising the supervision of the most systemic agents of the financial market.

Challenges for the banking industry

Sustainability was still one of the focal points of financial authorities, despite the fact that the US and European election results were not favourable to advancing the green transition. Financial authorities' increased focus on matters related to protecting the environment and biodiversity was also noteworthy.

In the United States, the Fed published the first climate-related scenario analysis, which studied the impacts on the probability of default of loans to enterprises and households based on the exposures of the six main banks. Just like similar exercises in other jurisdictions, it had no implications for capital or banks' supervision.

Europe approved practically all pending regulations, so that in 2025 new reporting and transparency requirements will come into effect. The European Banking Authority (EBA) showed concern over the impact of greenwashing on reputational and operational risks and recommended that banks introduce a series of improvements in the area of governance, data and reporting. Furthermore, in 2024, European banks started to publish their green asset ratio that ranged between 2% and 10% depending on the bank, which are levels below those estimated by the EBA. The ratio was criticised for its design.

For its part, the ECB published its climate and nature plan 2024-2025 and climate risks continued to be one of the supervisory priorities of the SSM in 2024. As a result of a lack of climate stress tests by supervisors during 2024, the ECB concluded that companies that are more engaged in the green transition benefit from lower interest rates when searching for bank loans. The ECB's lending survey also showed that climate change, especially physical risks, contributed to toughening lending conditions for the most polluting companies.

As regards the measures to be adopted to tackle the financial risks stemming from climate change, the European Systemic Risk Board (ESRB) advocated for complementarity between micro- and macroprudential policies, so that these do not entail more requirements for banks.

At the financial industry level, the Glasgow Financial Alliance for Net Zero, the leading financial services sector coalition, announced changes to its organisation as several large US banks started to leave the alliance. Pressure from the US Republican Party on this coalition in recent months has been compounded by the Trump presidency, who is opposed to the fight against climate change.

Digitalisation processes in the financial sector continued at an increasingly fast pace, giving rise to several focus areas. On the one hand, the trend seen in previous years regarding the advance of Big Tech in the financial services sector continued. The banking sector kept making calls for regulations that adhere to the principle of "same activity, same risk, same regulation". On the other hand, the proliferation of cyberattacks, which are becoming more frequent and more severe, also continues to cause concern. With regard to cyber-risk, it was noteworthy that the ECB carried out its first cyber resilience stress test and concluded that, in general, banks have response and recovery frameworks in place, although it recommended some areas for improvement.

As regards regulations for digitalisation, the Markets in Crypto-Assets (MiCA) regulation was phased in but will not be fully implemented until 2025. Several financial institutions have announced the launch of new services related to crypto-assets once this regulation has been fully implemented.

The authorities in the United Kingdom also made progress in these matters, albeit rather more slowly. In the United States, legislative proposals to regulate these markets did not make any progress, but the federal agencies continued to put regulatory pressure on the main crypto-asset exchanges and, in numerous cases, began legal proceedings against these entities. The Basel Committee, for its part, published the final draft of the disclosure framework for banks' exposures to crypto-assets and amendments to its standard on their prudential treatment in July. Banks will have to apply these two standards to their crypto-asset exposures starting on 1 January 2026.

With regard to central banks' digital currencies, these plans continue to be implemented. In particular, the digital euro project made progress in 2024. The ECB carried on with the preparation phase, which started in autumn 2023 and is scheduled to last two years. This phase includes finalisation of the rules of operation and the selection of service providers that could develop the platform and infrastructure. Meanwhile, the European Commission brought back the proposed regulatory framework for the digital euro that began with the previous administration.

China continued to move forward with the digital yuan, expanding its use, albeit with some challenges. The United Kingdom continued to work on a potential digital pound, but its project is progressing more slowly than that of the digital euro. Meanwhile, the United States kept its digital dollar project on the back burner and with Trump's victory it became even more unlikely. Furthermore, the United States Congress approved a law that requires the Federal Reserve to obtain parliamentary approval before issuing the digital dollar.

Meaningful progress also continued to be made in experimenting with the possibilities of interoperability between digital currencies of different central banks and tokenised deposits of commercial banks, including Project Agorá led by the Bank for International Settlements (BIS) that began this year. In parallel, the BIS and the International Monetary Fund (IMF) kept pushing for the development of public financial infrastructures in Distributed Ledger Technology (DLT), under rules to be established by the central banks, and the tokenisation of traditional financial assets.

2.3 Vision for 2025

Global economic growth in 2025 is expected to be impacted by uncertainty and Trump's protectionist policies. Trump's arrival at the White House compounds other dragging structural factors that a, including the following: (i) the turbulent geopolitical environment and its consequences on international trade and value chains, (ii) structural weaknesses of economies such as China, Germany and Italy, and (iii) the fiscal situation of some large developed economies, especially the United States, France and Italy. In Mexico, growth may be below that of the last three years, negatively affected by restrictive monetary policy, uncertainty over constitutional reforms, the T-MEC review and the fiscal adjustment that the government must implement.

The geopolitical environment is expected to become more complicated with Trump's arrival. Trump is expected to impose tariffs on the United States' trade partners, especially China. He would seek to negotiate measures with the Chinese authorities that benefit the US economy. Thus, uncertainty and a trend towards greater protectionism in several regions would mount. Preference for reducing external dependence and improving autonomy in strategic sectors (e.g. technology) could also be a factor in favour of adopting protectionist policies. Moreover, Trump's isolationist policy undermines major multilateral consensus, accentuating a lack of international cooperation in different areas (in addition to international trade, also in climate, technology regulation, cybersecurity, etc.).

The volatile and erratic nature of inflation is expected to be accentuated by new supply shocks (new tariffs, more volatile energy prices, reconfiguration of production chains, convulsive geopolitics, climate shocks, etc.) and an expansionary fiscal policy. In the Eurozone, inflation could be somewhat below the target due to economic weakness in the region. In the United States on the other hand, inflation is expected to remain somewhat above central banks' targets and to swing within wider ranges.

In terms of economic policy, the monetary policy gap between the United States and the Eurozone is expected to widen. The Federal Reserve might be more cautious with its monetary policy, and the target interest rate is forecast to remain at relatively high levels amidst more erratic fiscal policy, sustained growth and higher inflation. The ECB is expected to cut the policy rate below monetary neutrality, in response to a scenario of greater deterioration in activity. In the medium term, it is expected to maintain the policy rate around the estimates of monetary neutrality due to the rising risk of inflation.

In relation to the financial markets, yields on long-term government bonds are expected to remain at relatively high levels, due to a higher term premium on the back of volatility in growth and inflation figures and high sovereign financing needs, among other factors. Sovereign debt risk premiums in the European periphery might remain at contained levels and in line with their respective ratings.

On the currency market, the dollar is expected to show further strength, due to the widening of the pro-US rate differential, the improved performance of the US economy and the uncertainty caused by political and geopolitical risks.

In Spain, the economy is expected to continue to grow above its potential in the first years of the forecast horizon and to show more momentum than in the Eurozone. After a period in which the external sector has played a prominent role, domestic demand may take on a bigger role. Activity will be underpinned by the increase in population (a consequence of migration), the favourable evolution of the labour market, the absence of imbalances in private agents' balance sheets and in the external sector, lower interest rates and a greater rollout of NGEU funds. The rating of Spanish government bonds is estimated to remain in the A-/A range, in an environment in which public debt will still remain at high levels. This will contribute to the risk premium remaining at contained levels.

Within the financial environment, the profitability of the banking industry is forecast to remain resilient amidst the reactivation of credit and containment of delinquency rates. The capital and liquidity position is expected to remain robust. The entry into force of Basel III, the management of geopolitical risks, the implementation of new digital regulations (Digital Operational Resilience Act, or DORA, and MiCA), ESG matters, cyber threats, the impact of potential adjustments to the non-bank financial sector and the adjustment of commercial real estate will be areas to focus on.